

Message Text

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ACTION EA-10

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

LAB-04 SIL-01 DODE-00 PM-03 H-02 L-03 PA-01 PRS-01

SAJ-01 NSCE-00 /101 W

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R 190900Z JUN 75

FM USLO PEKING

TO SECSTATE WASHDC 3921

INFO AMEMBASSY CANBERRA

AMEMBASSY MOSCOW

AMEMBASSY TOKYO

AMEMBASSY SEOUL

AMCONSUL HONG KONG

C O N F I D E N T I A L PEKING 1142

NOFORN

E.O.11652: GDS

TAGS: PFOR, EFIN, EAID, EEC, NK, CH

SUBJECT: NORTH KOREAN DEBT

REF: PEKING 998

1. MOST OF THE FOLLOWING INFORMATION WAS PROVIDED BY KEVIN LIDDY, AUSTRALIAN COMMERCIAL COUNSELOR, WHO HAS RECENTLY SPENT TWO WEEKS IN PYONGYANG, AND HAS NOT YET REPORTED THIS MATERIAL TO CANBERRA. ADDRESSEES SHOULD NOT DISCUSS REPORT WITH NON-US NATIONALS.

2. LIDDY ESTIMATES THAT TOTAL NORTH KOREAN DEBT TO NON-COMMUNIST CREDITORS IS FROM \$800 TO \$1,000 MILLION, DIVIDED AS FOLLOWS: JAPAN, \$500 MILLION, EEC, \$200 MILLION (FRENCH
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ESTIMATE WAS \$300 MILLION); SWEDEN, \$30 MILLION, FINLAND

\$10-20 MILLION, AUSTRALIA, \$10-12 MILLION. AT THIS TIME, NONE OF THESE DEBTS IS BEING SERVICED. SEVERAL JAPANESE AND EUROPEANS ARE IN PYONGYANG IN ATTEMPT TO COLLECT A PART OF DEBT, BUT NONE IS BEING SATISFIED. HE HAS HEARD THAT IRAN HAS OFFERED \$200 MILLION IN SHORT-TERM CREDITS WHICH MAY RESULT IN TOKEN PAYMENTS LIDDY SAID THAT THE TEAM SCHEDULED TO VISIT EUROPE TO DISCUSS DEBT RESCHEDULING (REFTEL) HAS NEVER LEFT PYONGYANG, AND HE DOUBTS THAT IT WILL.

3. LIDDY SAID THAT ON ONE SHIPMENT OF AUSTRALIAN WOOL, THE DPRK FOREIGN EXCHANGE BANK HAD GONE SO FAR AS TO REVOKE AN IRREVOCABLE LETTER OF CREDIT. MOREOVER, IN AT LEAST ONE CASE THE DPRK HAS ISSUED FALSE BILLS OF LADING ON NON-EXISTENT SHIP, COLLECTED FROM IMPORTER, AND SHIPPED MONTHS LATER. DESPITE THESE "IMMORAL" ACTS, HE SAID, THERE ARE JAPANESE, AUSTRALIAN, AND SCANDINAVIAN TRADERS IN PYONGYANG WHO HAVE RECENTLY SIGNED CONTRACTS FOR DELIVERY OF A LARGE VARIETY OF PROJECTS.

4. NORTH KOREAN DEBTS TO COMMUNIST COUNTRIES ARE MUCH LARGER. LIDDY WAS TOLD IN PYONGYANG THAT THE NORTH KOREANS ARE NOT SERVICING THEIR DEBT OF 6 MILLION RUBLES TO THE USSR. HE HAD NO INFORMATION ON THE PERHAPS SUBSTANTIAL AMOUNTS OWED TO EASTERN EUROPEAN COUNTRIES.

5. AN IMPORTANT OBJECTIVE OF KIM IL SONG'S TRIP TO CHINA AND EASTERN EUROPE, ACCORDING TO LIDDY, WAS ADDITIONAL CREDIT. HE WAS TURNED DOWN IN ROMANIA AND WAS NOT PERMITTED TO VISIT THE USSR BECAUSE HE WISHED TO DISCUSS ADDITIONAL CREDITS. RESULTS OF HIS VISITS TO OTHER EASTERN EUROPEAN COUNTRIES ARE NOT YET KNOWN. THE ONLY SUCCESS ON THE TRIP, HE SAID, WAS IN PEKING, WHERE THE CHINESE NOT ONLY CANCELLED ALL OUTSTANDING DEBT TO THE PRC, BUT OFFERED AN ADDITIONAL CREDIT OF \$150 MILLION TO THE DPRK. AN INDIAN SOURCE SAYS THAT MILITARY EQUIPMENT WAS INCLUDED IN THE CHINESE PACKAGE, AND THE SOVIETS TOLD THE BRITISH EMBASSY THAT IT TOTALLED CONFIDENTIAL

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\$450 MILLION.

6. LIDDY BELIEVES THAT THE DPRK IS FOR PRACTICAL PURPOSES BANKRUPT IN FOREIGN EXCHANGE TERMS. ALTHOUGH IT HAS SUBSTANTIAL EXPORTS, IT HAS BEEN LIVING FAR BEYOND ITS INCOME, AND HAS NOW EXHAUSTED ALL AVAILABLE SOURCES OF CREDIT. HE FEARS THAT THE NORTH KOREANS, WITH THEIR BACKS TO THE FINANCIAL WALL, WILL BE UNWILLING TO MAKE

THE SACRIFICES NECESSARY TO RESTORE THEIR
CREDIT-WORTHINESS, AND MAY SEEK RELIEF IN MILITARY AD-
VENTURISM.

7. WE HAVE NOT GIVEN THIS MESSAGE WIDER DISTRIBUTION
SINCE WE ARE CHECKING OUR FURTHER SOURCES ON THIS DEBT.
IN THE MEANTIME, WE WOULD APPRECIATE ANY INFORMATION
AVAILABLE TO THE DEPARTMENT ON THE NORTH KOREAN FOREIGN
EXCHANGE POSITION. BUSH

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INTELLIGENCE COLLECTION, CREDIT, GOVERNMENT DEBTS
Control Number: n/a
Copy: SINGLE
Draft Date: 19 JUN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975PEKING01142
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750214-0982
From: PEKING
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750634/aaaabfca.tel
Line Count: 124
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 PEKING 998
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 16 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16 JUN 2003 by CunninFX>; APPROVED <28 OCT 2003 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: NORTH KOREAN DEBT
TAGS: PFOR, EFIN, EAID, KN, CH, EEC, (LIDDY, KEVIN)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006